

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal One)

Docket No. RM2015-9

PUBLIC REPRESENTATIVE COMMENTS
(July 22, 2015)

On June 18, 2015, the Commission issued a Notice of Proposed Rulemaking in this docket to propose a change in methodology for the accounting of revenue, pieces, and weight (RPW) associated with forever stamp usage, breakage, and Postage in the Hands of the Public (PIHOP).¹

I. BACKGROUND

Regulatory reporting of revenue, pieces and weight is presented in the “Revenue, Pieces and Weight By Class and Special Services” (RPW) report filed quarterly with the Postal Regulatory Commission. Notice at 2. Revenue, pieces and weight are reported for Postal Service products through various source systems. *Id.* Estimates based on census source systems are used directly. Non-census source estimates are adjusted by the Book Revenue Adjustment Factor (BRAf) process. The ODIS-RPW system produces statistical estimates of all Postal Service products.

Under the current methodology, ODIS-RPW estimates for forever stamps usage are considered to be from a non-census source and are therefore, adjusted by the Book Revenue Adjustment Factor (BRAf) process. Additionally, under the current methodology, both breakage and PIHOP are allocated to products.

¹ Notice of Proposed Rulemaking on Analytical Principles used in Periodic Reporting (Proposal One), June 18, 2015 (Notice).

Proposed Methodology Change. The Postal Service proposes that ODIS-RPW statistical estimates of revenue, pieces and weight for mail pieces with forever stamps be used directly in RPW and not adjusted by the BRAF. *Id.* at 1. The Postal Service contends that ODIS-RPW estimates are accurate enough to be considered a near census source and should be treated as such. *Id.*

The Postal Service also proposes to assign breakage from both forever and non-forever stamps to the Market Dominant Other Revenue in the RPW report. It asserts that because breakage refers to postage that will never be used on products, it should be assigned to non-product related lines of the RPW report. *Id.* at 10-11.

Finally, the Postal Service proposes to eliminate the allocation of Postage in the Hands of the Public (PIHOP) adjustments from stamps as well as meter PIHOP to products. *Id.* at 2. The Postal Service asserts that large increase or decreases in deferred revenue and revenue due to forever PIHOP adjustments disproportionately affect RPW product estimates on a monthly basis. *Id.* 8-9.

II. COMMENTS

For the reasons the Postal Service stated, the Commission should adopt the Postal Services' proposal to use ODIS-RPW estimates for products bearing forever stamps directly in the RPW. However, the Commission should deny the Postal Service's proposal to remove the allocation of PIHOP adjustments to products. Additionally, the Commission should also deny the Postal Service's proposal to allocate breakage from both forever and non-forever stamps to Market Dominant Other Revenue in the RPW report.

Product revenues from the RPW report are used by the Commission to evaluate product cost coverages as required by 39 U.S.C. §§ 3622(c)(2) and 3633(a)(2). Just as direct and indirect postal costs are attributed to products through reliably identified causal relationships, revenues should also only be allocated to products when a causal relationship between a product and revenues can be identified.

The Postal Service assumes that no causal relationship exists between products and breakage because breakage represents stamps that will never be used on products. It

asserts that because “forever breakage is revenue recognized in the time period of sales and will never be used on products, it should be assigned to non-product related lines of the RPW report.” *Id.* at 11.

The Postal Services’ narrow view of what constitutes a causal relationship is unsupported by Commission precedent. The Commission has adopted a much broader view of such causal relationships in previous dockets. For example, it consistently allocates costs back to products when determining highway transportation costs.

Currently, the costs for highway transportation services purchased under contract are included in Cost Segment 14. Cubic-foot-miles of capacity is considered a "cost driver" of highway transportation costs. The Postal Service uses the Transportation Cost System (TRACS) to distribute cubic-foot-miles to products. Postal data collectors sample mail and the amount of empty space as mail is unloaded from highway transportation. A distribution key is developed from these samples. The estimation of cubic-foot-miles by product includes allocating empty space to products. Empty space (by definition, cubic-foot-miles of capacity unused by any product) is distributed to off-loaded mail in proportion to the estimated truck space occupied by the sampled mail. Based on the Postal Service’s interpretation of causality, empty space would not be allocated back to products. But in fact, the methodology recognizes that if it was not for the mail on the truck, the Postal Service would not have incurred the cost of the excess capacity.

Similarly, neither PIHOP nor breakage revenue would exist if not for the products that are mailed with stamps. For example, if the Postal Service eliminated First-Class Mail single-piece letters, both PIHOP and breakage revenues would decline significantly because customers would be buying far fewer books of stamps.

The Public Representative urges the Commission to deny the Postal Service’s proposal with regards to Stamp and Meter PIHOP and maintain the allocation scheme

specified in Order No. 816.² Order No. 816 at 5. The Commission should require the Postal Service to distribute breakage to products in proportion to the usage by product.

III. CONCLUSION

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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² Docket No. RM2011-11, Order Concerning Analytical Principles Used in Periodic Reporting (Proposal Three), August 19, 2011 (Order No. 816).